



## **GROWING THE ECONOMY THROUGH HIGH GROWTH COMPANIES**

### **Introduction**

Small and medium size businesses are the cornerstone of many countries' economies. In fact, small companies represent 90% of all businesses for nearly 70% of both jobs and GDP worldwide according to the World Economic Forum. They are the ones who enable growth and innovation.

The global small business isn't like a big global business, and neither is it like the traditional small business. As the name suggests, this is a business that may have less than twenty staff but isn't limited by geography. It can reach into cities all over the world and can be making millions of revenue despite a relatively small headcount. However, what is missing is support for these businesses that have the capability to transform the UK economy. This Paper will address this and provide a way forward.

### **Context**

The UK Government is presently implementing a strategy of both stability and growth to deal with global inflation, energy and cost of living crises as well as the recent disruption caused by the previous Prime Minister. What impact will this have? How will this achieve growth? These are questions for policy makers.

A proactive strategy is also required to grow the economy through the private sector. Fast growth businesses in the UK are prolific job creators. (Anyadike – Danes et al 2009, Du & Temouri 2015, Bravo-Biosca 2016) This is important as the OECD define these companies by their ability to create jobs. These high growth businesses account for 4.6% of all jobs created in any three- year period and almost twice as many jobs at the start of that period. What we know from research is that it is through established growing companies that employment and economic growth will come.

However, the OECD also define these companies as having at least ten employees in their base year. Today, this is not so vital as technology relies less on the power of people. Therefore, we have updated the definition of these fast growth companies as having at least 5 people, be three years plus in age and an average annual growth in employment of 20% or more in its three -year period and a turnover of £250,000 plus. This Paper asks what is the best cost effective support for these businesses that will produce not just value for money, but will result in a growing economy.

### **Why focus on established companies rather than new start- ups?**

While start-up businesses grow, many have a tendency to remain at a micro-small size (3 or less people) (Hart, Anyadike-Danes, Bonner and Mason 2009) It's been found that 58% of firms starting with one employee still have one employee ten years later and almost half who grew did so by an additional employee only. Whereas firms that started with at least five employees at the start ended

up contributing 25% of all new jobs. Therefore, supporting high growth businesses is better policy in terms of job creation and economic growth than a policy supporting all SMEs and start-up businesses many of whom achieve modest growth.

### **This Study Methodology**

This study focuses on business that are at least 3 years old and employ at least 10 people to establish their needs and support for further growth.

It began with a literature search to establish what was already known. This ranged from studies of what Birch labelled 'gazelles', companies that had high growth to the role and type of business support including networks and government services. To gain depth of understanding, the study included in depth qualitative observation as well as measurable quantitative information. This took the form of several focus group discussions and many one-to-one discussions where the business owners could explain their experiences and needs in depth. This was in addition to a questionnaire sent out to over 70 business owners from different sectors.

### **Key Challenges Facing Businesses Today**

#### *1. Access to finance.*

An article in the Financial Times by Jonathan Moules on August 30<sup>th</sup> 2010 reported that a poll of 250 accountancy firms said access to finance was a major problem for established small to medium sized businesses. In addition, 80% of the survey reported that their clients had lost faith in traditional sources, such as term loans and overdrafts.

Years later, in the focus groups for this study this was a key issue felt by the business owners and for some, their greatest challenge. The lack of support from banks even when some of these businesses had been with the same bank for several years was their most frustrating challenge. One business owner said: "Even though for the last two years we have never been out of credit, support isn't there." The groups felt no loyalty towards their bank any more as a result of their recent behaviour.

Another director remarked: "We needed investment up front for a major IT project, but the bank refused. Remarkably, we managed to get access to other funding and complete the project that produced a large amount of revenue for us to reinvest in the business. If we had lost the deal through lack of funding, it would have limited our growth and reduced our profile to achieve other deals with possible redundancies resulting. I can't emphasise how important this was."

#### *2. Media negative messages*

The second issue was the national media and their obsession with bad news which destroys business confidence. This often results in many contractors requiring their invoices paid 'upfront' before the work had commenced. This was affecting the construction sector in particular. They remarked that there seemed to be enjoyment in misery of moaning from the media that one business owner called it the 'Eeaw' effect. In other words, the media were acting like Eeaw out of Winnie the Pooh who was always glum. One comment was: "Business confidence is driven by the press. People have lost confidence because of the threat of recession, and this is hyped up by the press to go on longer than necessary."

They also said the government have talked about cuts and inflation and we are seeing the results but 'where was the proactive strategy for getting us out of the mess?' The groups consistently stated that business needs to know from government where we are going to be in five years' time. They asked: "Where is the leadership?"

### 3. Risk and uncertainty

The risk of growth was an issue. The business owners talked about how the balance changes from a new business with a million- pound turnover employing two part-time people and growing to two million and employing more people. The group discussed at length how each growth stage carries more risk and how they deal with this and the support they may need.

### 4. People skills

The last big challenge that kept being raised in the focus groups was the skills shortage in people. This challenge isn't new and been neglected for a long time by different governments. One business had doubled its number of employees in the last twelve months from twenty- five to almost fifty people, but they had found recruiting skilled and experienced staff difficult and said there was a real skill shortage. At another focus group meeting it was decided that skills were not only a problem but also finding people with the right mindset and attitude. "We need people with self-discipline."

These challenges are faced every day by businesses in the UK. It was summarised by one who said: "*Overcoming hurdles is the key life of an SME and we need support at each stage.*"

#### **Where do these businesses go to for advice?**

One of the key factors that came out of the one- to -one sessions was the importance of how they chose where to go for advice. For example, one 35- year- old said he went to his accountant and bank manager because they were the same age as him and felt they had common interests upon which they had built a relationship. Another business owner said trust was key in deciding where he went for advice. This is reiterated by the studies Kevin Mole made at Warwick University (2009) who said a trusting relationship was vital for how business owners choose advice.

*At one focus group business owners agreed that finding the right person with experience of running a business with access to a network that would be useful to tap into was their aim. They also stated they did not want a retired bank manager or accountant.*

They all agreed the key was having continual assistance over time at different growth stages and more than what they could gain from the Institute of Directors (IoD), the Federation of Small Businesses or Chamber of Commerce.

The findings demonstrate the need for business advice to be available at different times in the life of a business. It is also worth pointing out that anyone who watches Dragon's Den realises that those participating with their business ideas look for business advice and experience from the 'Dragons' as much as funding.

One focus group said it was facilitation rather than advice that was important. A director explained; "She brought out our goals by asking the right questions, and then asked how we should achieve them. The sort of questions we ask our customers, but we need someone outside the business to do this with us. Fundamental was the fact that she could tap into a useful network of contacts for us as well".

#### **The importance of a network**

Ostgaard and Birley's 1996 study found a positive link between networking and company growth. This was also confirmed in a UK study by Pickernell et al (2008) who stated: "... having a wide range of sources of advice, and a greater number of types of advice are positively related to having higher growth orientation- aspirations." This was echoed in this study by business owners. One remarked:

“Some networks are good for sharing similar problems with similar people, other networks are good for generating new business.”

### **What sort of support is required for growth?**

There were two main reasons the companies in this study needed support. The first was to get help with strategy (75%) and the second reason, (72%) was to address a specific problem they had. Other issues raised included 51% needing help with change. Change is now a way of life with so much disruption from technology and uncertainty from a globally connected world that makes business more complex. Whereas help with a functional issue such as marketing scored 25% and addressing the skills gap scored 23%.

The study here also explored whether the age of the business or number of employees would affect the type of support needed but this seemed to have no connection. For example, succession planning was regarded an issue for businesses of 4 years, 10 years, 16 years and even 43 years when the founder would have changed at least once.

### **Should business advice be funded?**

While 50% said the service should be partially funded, 38% stated that they would expect the advice to be paid for by the business.

### **When should business support be available?**

The questionnaire tried to establish when businesses felt advice and support was important. While 68% of respondents said it was needed at start up stage there was an overwhelming response, 74% who said the most vital time was at growth stage with the specific need to grow the skills of people. Finding skilled people and growing people seemed to be a big challenge for established businesses. In addition, leadership and developing the senior team and finding new markets both followed with 71%. Thus demonstrating a high need for different forms of advice.

### **How do business owners want advice delivered?**

The delivery of business support was most preferred through workshops at 73% and short seminars second with 60%. Their third choice was to have face to face sessions with an adviser while face to face with online support received 43%. When asked what they were looking for in a business adviser they said:

“Empathy. You get more productive help if they have experience.”

“Someone with experience and credibility. Most consultants and coaches don’t understand.”

“Someone who has been and done it, not lecture you.”

Who are the high growth companies?

What we know from research including Hart et al (2009) is that these high growth businesses are found across industry sectors and not necessarily found just in high technology industries as is the belief in some government departments. They conclude:

“We should not assume that high growth firms can be correlated with high tech sectors, such as nanotechnology and biotechnology, knowledge-based sectors or creative industries. ... if we are looking to stimulate growth in the private sector it is to the established stock of business that we should look rather than relying upon policies aimed at a group of start-ups....”

## **Intention of business owners**

It was found in this study that intention was also a factor in how established businesses grow. Business drivers such as the aspirations, ambitions, resilience and motivation of business owners are important. While these elements are not prevalent in some of the academic research papers the aspirations, ambition, resilience and motivations came out in the one- to -one interviews undertaken in the study here. For example, one of the business owners, a young man who started on the shop floor, bought the business two and a half years ago and today employs fifty people. He remarked that his aspiration was to own the business he was working for. Therefore, the intentions of the business owners should be considered

Pickernell et al (2008) supported the above by saying: "Understanding growth intentions are therefore important as these aspirations play a critical function in the actual growth by firms." (Covin and Slevin,1991; Cliff 1998; Wiklund and Shepherd, 2003).

Intention and resilience are vital but having business support at different times based on trusting relationships is what enables these growing companies to continue to grow, even in times of recession or a global pandemic.

## **Conclusion**

This report set out to answer two questions. The first was: do growing companies need support? The evidence here clearly demonstrates that established growing businesses need support and advice throughout their life. The second question was: how important is this business support to these established growing businesses and to the economy? There is clear evidence that business support and advice results in more growth and employment and therefore is vital to the economy especially now when growth is needed. In fact. It would be folly to just focus on new start -up businesses in only new industries and sectors. Supporting both established growing businesses across sectors as well as growing businesses in new sectors is the way to rebuild the economy.

The most important information from this research is that support should be available over the life of a business, by people who have the right experience (not ex-bank managers, accountants or coaches) and delivered through strategic review workshops, short topical seminars, action learning focused on peer- to- peer learning, and face to face with online support. The benefits of which should demonstrate growth and provide a network where business owners can build trusting relationships.

This is work The Leaders Institute has been undertaking in England and Wales with the right facilitators who have experience of growing businesses and have the right contacts as well as advice. Therefore, our work will focus on growing the economy through growing the right businesses. This updated research has enabled us to ensure our offering is right.

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